

# RETURNS: THE DARK SIDE OF E-COMMERCE

And How to Find the Light



# TABLE OF CONTENTS

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Executive Summary.....	2
In a Galaxy Not So Far Away.....	3
The Dark Side.....	4
Finding the Light.....	5
Intralogistics Automation - Feeling the Force.....	6
The Droids You Are Looking For.....	7
A New Hope.....	8

## EXECUTIVE SUMMARY

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- The explosion in e-commerce and customer-centric returns policies have led to return rates as high as 50 percent.
- Estimates now put the cost of global returned items at US\$598.6 billion (€541.63 billion) per annum.
- The cost of handling returns is typically three to five times higher than original shipping costs.
- Businesses are challenged to making reusable stock available for resale as quickly as possible, particularly in the apparel segment, where items are often seasonal.
- Return handling costs are a global issue – even where labor is cheap. Returns mean double logistics cost (shipping and reverse-logistics), no turnover and sometimes a disappointed customer.
- If returns are not handled according to the customers' expectation, they often communicate their negative experience via social networks or post negative reviews on the supplier's site, discouraging future customers.
- An efficient returns solution enables a smooth experience for the consumer, accelerated availability of returned goods, lower intralogistics personnel costs and higher storage density.

# IN A GALAXY NOT SO FAR AWAY...

## There Is a Great Disturbance in the Force

Returning goods is not a new phenomenon, but the rise in e-commerce has seen a change in consumer buying habits. Having the option to buy a selection of items, especially when looking at clothing and footwear, trying them on in the comfort of your own home, and then sending back what you don't want has proven to be an attractive option for consumers. This has also spread into other sectors such as electronics and homeware.

Consumers want their goods quickly; equally, they want their money back fast for any returns. Any delay in getting their money back is a delay in being able to spend it again; and retailers want to ensure this money is re-spent with them! Consumers certainly do not consider the impact additional returns have on the retailer – that they have to be factored into the item price, which ultimately means that everybody pays more.

The value of returns is staggering – in 2015, research from the retail analyst firm IHL Group put the global cost of returns at US\$598.6 billion per annum (€541.63 billion). IHL's report suggests that Europe accounts for 43.7 percent of all returns globally, while in the United States, the National Retail Federation expects that eight percent of all sales this year – equating to roughly US \$264.8 billion (€239.6 billion) – will be returned.

It is estimated that roughly 30 percent of multichannel women's fashion purchases are currently returned, while up to 14 percent of consumer electronics goods are sent back. A German study in 2014 saw wildly varying rates for returned goods, including 5 percent of washing machines!

## A Global Challenge

In China, legislation has been passed on the Protection of Consumer Rights and Interests, which explicitly requires retailers who sell online to accept unconditional returns from customers within seven days of the sale. According to



Dr. Haozhe Chen, associate professor of marketing and supply chain management at East Carolina University, e-commerce giants such as Alibaba are still grappling with the implications. "During peak seasons, such as Singles' Day, China's logistics network is overburdened with packages resulted from online shopping. If forward logistics is already an issue, it can only be imagined how much more challenging it is for reverse logistics related to returns management."

For the UK's Black Friday, 2015 revenues were predicted to soar to around £890 million (€1.1 billion); 15 percent of which would then be caught up in returns. Christmas would add to this, with a possible 45 percent of all online purchases expected to be sent back, according to independent retail analyst Richard Hyman.

Returns management requires considerable resources to be made available to process goods, credit the correct customer's account and make items available for resale. Retailers also need to ensure that customers enjoy a seamless return and refund experience so they are encouraged to continue using their services; something that can act as a key differentiator within highly competitive markets.

It may be tempting to make it harder to send things back, and indeed this was once the policy for many; but this presents its own challenge for retailers – the loss of customers.

According to Harris Interactive, 85 percent of customers say they will stop buying from a retailer if the returns process is a hassle; conversely, 95 percent of customers will use the same retailer again if the process is convenient.

# €542 bn

The annual global cost of returns, according to retail analyst firm IHL Group.

# THE DARK SIDE

## The True Challenge Arises in the Warehouse

Of course, the challenge for business is not simply the idea of the customer "getting it right" or forcing customers to keep unwanted items. The true challenge arises in the warehouse, where logisticians are left to pick up the pieces.

One area where the inventory manager and the consumer agree is on the need for speed. The consumer wants to be able to return goods easily and freely, and receive a refund as fast as possible. Retailers strive to resell the item, which may be subject to expiration dates or seasonal demands. Reintroducing the stock for repicking and repurposing items where necessary helps to maintain stock value and reduce overall supply chain costs.

The consequences of handling returns may not be fully appreciated by newcomers to the e-commerce industry. Similarly, some have taken somewhat draconian measures to returns; one UK retailer even sent returned bicycles straight to a landfill. Even a sought-after retailer may experience returns of 20 to 30 percent of shipped items, all pushing up inventory value and putting a strain on cash flow.

Retailers are striving to reduce the returns rate to a manageable level from both a customer-facing point of view and from inside the warehouse, while others promote returns as a hook to increase revenue – particularly if consumers return items to the store (and therefore make additional purchases). A good and realistic returns solution enables the items to be returned to inventory at the earliest opportunity and lets the customer feel at ease with continuing to buy from the retailer.

## Categorization of Returners

E-commerce expert Bernd Kratz categorizes goods returners into three groups: the honest, the over-orderer and the fraudster.



**The Honest Customer** really wants the item concerned, but there is an issue with it that has not met their expectations. Sometimes this is an issue with the product descriptions being either too vague or misleading, giving rise to expectations that are too high. This type of customer actually does not want to return the item but is being forced to, leaving them disappointed and likely to take their custom elsewhere.



**The Over-Orderer** views the shopping experience as a chance to put a fitting room in their own home. A variety of sizes and colors are ordered, safe in the knowledge that most of it will be sent back. Free and no-questions-asked returns policies encourage the over-orderer, and the retailer incurs additional cost because of the processing time and effort of returning these items back into stock.



**The Fraudulent Returner** is not a new phenomenon but a rising one due to the comparative anonymity of the Web. The fraudster orders an item with the intent to use it once and then return it. The evening suit may be returned with the theater tickets still inside the pockets; a suitcase returned that when it's opened contains sand; the TV returned the day after the final of a large sporting event.



# FINDING THE LIGHT

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It is worth considering that optimizations can be made both inside the warehouse, and as part of the wider logistics, but both require enlightenment – of the process and the way it fits into the wider picture.

## Enhancing the Customer Experience

The management of returns is a critical function for any retailer no matter what sector they operate in. Retailers need the returned items back into stock as soon as possible; any stock that can be resold that is not available for picking is taking up resources and costing the business money.

Some ways by which retailers are enhancing the customer experience is through a more customer-centric approach; multi-channel returns, rapid turnaround and keeping the customer informed at every stage in the process. Simple strategies such as clearer product descriptions, brand-specific sizing and virtual fitting are all essential ways to ensure consumers have the information required to make a successful purchase without the need for returns.

Fashion retailers such as ASOS.com are now trialing click-and-collect services with integrated changing rooms. Immediately after picking up their parcel at the collection point, customers can try on the items in a changing room. If it doesn't fit, or is not to their liking, it can be returned at the parcel collection point. This process ensures that returns are sent back much faster.

This is crucial for the customer experience of the honest returner, who may find they can more accurately get what they wanted, and can discourage the over-orderer from buying multiple versions of the same item.

Keeping the customer informed about returns may also have a psychological impact, with anecdotal evidence suggesting having a rapid turnaround and keeping customers informed during the returns process, including when the item is received and when they can expect their refund, deters further abuses of the process.

However, this still has a cost attached to it that the retailer must currently bear. "The tipping point is likely to come when retailers have adopted the right systems to handle returns at speed, while charging for returns will be another catalyst," adds James Sharples, managing director for Swisslog UK. "In the past, retailers charged a 'restocking fee' but due to the risk of customer switching involved, it would take multiple retailers joining forces for this to be effective in today's market."

## Handling Returns at Speed

Returns may be transported some 620 miles (1 000 km) round trip from the customer to the logistics center. As a result, a



growing new strategy in logistics is a trend toward several decentralized warehouses with high-speed fulfilment.

Within the warehouse, automation can often provide the support necessary to streamline the returns management process. Businesses should ensure that both manpower and equipment are sized to cater to the additional capacity that returns require.

Solutions using random putaway, a reverse-picking process using smart storage solutions and automated movement of totes should be considered by e-tailers and omni-channel retailers alike, looking to optimize their returns processes.

Sharples says: "For retailers, the whole returns business means extra work. They have to pick items for sale; then they get it back. They've got to put it back in stock or repurpose it to be able to sell it again."

"E-commerce's popularity is in part due to the ease of which we are able to buy without seeing it in the real world. People are much more willing to take a risk on something that can be sent back easily. There's increased volume for the retailer, but there's increased costs in double-handling unsold stock.

"To compete in today's market, retailers are offering free returns. If a lot of people choose to buy from a certain website because the returns process is so easy, that can become a driver in the market, but it's a double-edged sword. You get more customers because you offer a really good returns policy, but you are going to get more returns off the back of it. It's a zero-sum game between customer and retailer."

Similarly, the e-commerce model does not work without returns, and consumers are not likely to change their shopping habits now that the genie is out of the bottle and the smartphone simplifies the process yet further.

# INTRALOGISTICS AUTOMATION - FEELING THE FORCE

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## Reintroducing Stock Quickly and Efficiently

There are many ways in which retailers and associated companies can minimize the impact returns have on the business both within a customer-facing process or operationally. Operationally speaking, retailers must look at the returns process within the warehouse to be able to reduce the impact. When looking to streamline returns handling, the use of automation is an effective and efficient way to speed up the availability of return items to resale; and in the case of seasonal goods, prioritize returned items when picking for new orders. Here, an automated solution that is flexible, scalable and adjustable is vital.

Automation in this area can really help speed up the process. Integrating an automated solution, whether it be a fully or partially operated system, could have the following major benefits:

- Making returned items available much more quickly for delivery to other customers
- Reducing personnel costs in intralogistics
- Increasing storage density because less space is needed in e-commerce distribution centers

David Jefferys, Swisslog's industry segment leader for e-commerce & omni-channel, believes that the traceability automation provides is one of the key success factors of any returns process. "Traceability is very important - returned goods don't need to go to a specific area. Retailers just need to know where it goes to so that they can repick it as quickly as possible. With smart software or automation, the need to

# 45%

Amount of online purchases expected to be returned following Christmas 2015, according to independent retail analyst Richard Hyman.

store all like items together is eliminated, providing flexibility and simplicity to the retailer. For example, a returned white shirt doesn't need to be stored with the other white shirts in the warehouse. It can be stored in a flexible manner as the system keeps track of where it is, and can even prioritize its repicking."

Sharples concludes: "Automation gives retailers cost benefits. Handling returns is an expensive process. You haven't just got to handle the return. You've picked something and sent it, and you are going to lose the money on that. Anything that can be done to reduce the cost of handling returns is going to be beneficial. There is a big benefit to looking at anywhere there is a volume of returns; to consider automating the processes of putting these items back into stock and making them available for repicking."



# THE DROIDS YOU ARE LOOKING FOR

## Returns Solutions Offering Speed, Accuracy and Agility

Swisslog's modular portfolio of automated Click&Pick solutions can address some of the issues within handling returns, especially in the areas of repicking from returned stock and random putaway.

Systems such as CarryPick and AutoStore perfectly highlight the versatility of automated systems and how they can be leveraged to improve efficiency in returns management. By reducing costs and accelerating the returns process, both CarryPick and AutoStore show how the latest automation technologies can integrate handling returns into the ongoing processes of online, omni-channel or traditional retail.

With both technologies, returned items can be processed at picking stations in the warehouse so that only a few minutes pass between the time the item is returned to inventory and the time it is repicked and packed.

The focus for much of today's high-tech logisticians is human/robot integration and collaboration. Order picking and returns are fertile ground for further development. Robots are now able to intelligently manage a picking process and go beyond the standard repetitive movements they are otherwise known for.



### CASE STUDY: CARRYPICK

BLG Logistics in Germany organizes the returns for a workwear company – a very specific operation that needs to run efficiently. Here, returns are delivered via a mail service and are then processed through a number of workstations to ascertain their suitability to re-enter as inventory. With CarryPick's mobile rack technology, returned items can be stored using random putaway and picked from first for fulfilling subsequent orders. Because of the use of random putaway, there is a higher chance of fulfilling multiple orders from a single pick; and it is done smoothly and efficiently, thanks to this technology.



### CASE STUDY: AUTOSTORE

Swisslog's scalable, automated small parts storage system provides a powerful tool to retailers. Typically used for the storage and picking of goods, offering maximum use of available space, customers with this technology already include the likes of ASDA, brack.ch, Medline and Texas Instruments. For returns handling, AutoStore essentially uses its technology as a reverse-pick process. A proven application at 3PL SwissPost in Switzerland, products returned to a warehouse can be handled easily at decant stations. Returned products can be randomly allocated to storage bins, under the careful management of Swisslog's warehouse management system (WMS). It is possible to store multiple products within a single bin; and other operators can simultaneously use the system for fulfilling orders, meaning goods can be put back into stock and picked again with speed, accuracy and agility.

# A NEW HOPE

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## Summary

Logisticians who take a holistic approach to handling returns turn a challenge into an opportunity.

Costs can be considerably reduced by optimizing intralogistics processes and integrating new technologies. A new concept with an innovative technological approach enables picking and putaway of returns to take place at the same time.

This has four important benefits:

1. Accelerated availability of returns for shipping to the next customer
  2. Smooth and rapid returns experience for the consumer
  3. Lower intralogistics personnel costs
  4. Reduced space requirements and higher storage density
- Taking the demographics of customers returning goods into consideration for the particular sector type can provide vital data as to what measures can be taken to reduce returns. For example, virtual fitting or brand-specific sizing can lessen the need for consumers to purchase multiple sizes of an item.
  - At the same time, ensuring a customer-centric approach to returns helps consumers have a seamless experience. Multi-channel returns options and up-to-date information on the status of the return give consumers visibility to your brand and a positive experience.



- Automation can have significant impact in the warehouse when establishing a returns management system. The storage, reverse picking and transportation of returned items can help speed up the redeployment of returns either back into the saleable stock, storing for a specific sales event or other disposal processes.